

ORIGINAL

Decision No. 52527

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

IN THE MATTER OF THE APPLICATION
of Clear Lake Park Water Company,
a corporation, to issue and sell
its bonds for refunding its short
term notes and for other capital
purposes, including construction,
and to encumber its property as
security therefor.

Application
No. 37644

O P I N I O N

Clear Lake Park Water Company has filed this application for authorization to execute a trust indenture and to issue and sell \$35,000 of first mortgage bonds.

Applicant is a California corporation engaged in the business of supplying water to approximately 500 seasonal and permanent customers in unincorporated areas of Lake County known as Clearlake Park, Austins, and Pine Dell. Recently the Commission has reviewed applicant's operations and by Decision No. 52121, dated October 25, 1955, approved certain increases in rates. The Commission referred to a report filed by a staff engineer containing recommendations for improvement of the service and in its decision it found such recommendations to be reasonable and directed the company to proceed with the installation of the facilities necessary to effect the improvement in the service. The Commission's decision found as reasonable a rate base for the year 1955 of \$74,016, including an allowance of \$24,435 to cover the cost of the required improvements.

In the present proceeding it appears that applicant desires to proceed forthwith to construct and complete the improvements directed by the Commission and to borrow the necessary funds for such new works and also to pay outstanding notes of \$8,800 which were issued for capital purposes and now are past due. A summary of the total capital requirements is as follows:

To finance improvements required by Decision	
No. 52121, estimated as follows:	
New pumping station and related items	\$ 3,935
Chlorination equipment	600
Two filtration plants	15,000
Pipe installations in Austins area	<u>4,900</u>
Subtotal	24,435
To pay notes	<u>8,800</u>
Total	<u>\$33,235</u>

If any borrowed funds are available after meeting the above costs applicant intends to use them to finance in part the cost of a 4" main in Austins area in order to provide increases in supply and pressure, and to install meters and other facilities.

The application shows that the borrowings proposed by applicant will be represented by first mortgage bonds. Such bonds will bear interest at the rate of 6% per annum, will be due in 1981, and will be subject to redemption at any time at the option of the company, upon the payment of the principal amount thereof together with accrued interest, and in the event such redemption occurs before October 15, 1971, at a premium of 3% of the principal amount. The indenture securing the payment of the bonds further provides that so long as any remain outstanding applicant shall deposit \$1,250 on or before April 15, 1961, and annually thereafter as a sinking fund for the redemption of such bonds. Applicant is of the opinion it can dispose of the bonds at this time. It has concluded, however, that because of recent general increases in interest rates it may

have to dispose of them at 94% of their principal amount, or at any effective interest rate of approximately 6.47%.

The rates approved by the Commission were designed to produce a return of 7.5% on the rate base and to yield net revenues of approximately \$5,600, after provision for depreciation in the sum of \$2,335, the net available cash from operations thus amounting to \$7,935, if the expected results are obtained. The annual interest charges on the proposed bonds will be \$2,100 and the sinking fund, which does not set in until 1961, will be \$1,250.

Upon a review of this application and previous proceedings it clearly appears that applicant must take steps to improve its water service and that it is required to obtain the necessary funds from external sources if it is to meet the Commission's order in this respect. In fact, in the previous order the Commission contemplated that some action, such as applicant now proposes, would be taken by it and it stated that the revenues from the approved rates would be in excess of three and one-half times the interest requirement, at 6%, on the cost of the improvements. Accordingly, an order will be entered at this time authorizing the company to proceed with the sale of its bonds.

O R D E R

The Commission having considered this matter and being of the opinion that a public hearing is not necessary, that the application should be granted, as herein provided, that the money, property

or labor to be procured or paid for by the issue of the bonds herein authorized is reasonably required by applicant for the purposes specified herein, and that such purposes, other than accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED as follows:

1. Clear Lake Park Water Company, on and after the effective date hereof and on or before June 30, 1956, may execute an indenture in, or substantially in, the same form as that filed in this application as Exhibit B.
2. Clear Lake Park Water Company, on and after the effective date hereof and on or before June 30, 1956, may issue and sell not exceeding \$35,000 principal amount of its First Mortgage Sinking Fund Registered 6% Bonds due 1981 so as to net it not less than \$32,900, plus accrued interest, and use the proceeds, other than accrued interest, for the purposes set forth in this application. The accrued interest may be used for general corporate purposes.
3. Clear Lake Park Water Company shall file with the Commission a report, or reports, as required by General Order No. 24-A which order, insofar as applicable, is made a part of this order.

4. The authority herein granted will become effective when Clear Lake Park Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$35.

Dated at _____, California, this _____ day of _____, 1956.

John E. ...
President

Justin D. ...

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Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA

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BY *...*